FAMILY OWNERSHIP, AUDIT COMMITTEE AND AUDIT FEES: RELATIONSHIP WITH TAX AVOIDANCE

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ABSTRACT

This paper aimed to analyze the moderating effect of the presence of an audit committee and audit fees on the relationship between family ownership and tax avoidance of Brazilian listed companies. The sample consisted of 245 companies, in a time frame between 2011 and 2020, totaling 2,450 observations. In order to measure tax avoidance, the study used as proxies Book-Tax Differences (BTD) and Tax Rate on Added Value (TRAV). The study used a multiple linear regression technique, with coefficients estimated by the Ordinary Least Squares (OLS) method and robust standard errors. The findings indicate that family ownership is positively (negatively) associated with tax avoidance related to income taxes (other taxes). The results also indicate that the presence of an audit committee and audit fees are associated with greater tax avoidance in family businesses, in relation to income taxes. The paper has relevant implications for the study on tax avoidance, suggesting that managers do not adopt aggressive tax practices uniformly for all taxes and that taxes with different economic characteristics have different incentives for aggressive practices. The recent approval of the Consumption Tax Reform in Brazil also indicates the relevance of analyzing the aggressiveness of direct and indirect taxes separately.

Keywords: Tax avoidance. Family businesses. Audit committee. Audit fees.

1 INTRODUCTION

Research on family businesses (Siebels & zu Knyphausen-Aufseß, 2012; Evert et al., 2016) and on corporate tax avoidance (Hanlon & Heitzman, 2010; Wang et

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al., 2020) has developed independently over time, which is why insights into the relationship between family business and taxation are still limited. Considering that the literature recognizes the family business as a unique environment of economic organization (Randoy & Goel, 2003), the few studies that have investigated the tax behavior of family businesses have focused mainly on the differences between family and non-family businesses (Chen et al., 2010; Landry et al., 2013; Steijvers & Niskanen, 2014; Martinez & Ramalho, 2014).

Tax avoidance has become an increasingly present characteristic in the corporate setting. It consists of the effort of economic agents to reduce the tax burden of the firm, either through tax planning or through abusive practices classified as tax evasion (Armstrong et al., 2012). Companies may have various preferences and incentives to engage in tax-saving activities, which are considered risky corporate decisions (Armstrong et al., 2015).

Incentives to avoid taxes can be influenced by several factors, such as size, leverage, profitability and corporate governance, among others (Dyreng et al., 2008; Chen et al., 2010; Lanis & Richardson, 2011). Nonetheless, there is limited literature investigating the effect of ownership structure on tax avoidance (Chen et al., 2010; Cheng et al., 2012; Steijvers & Niskanen, 2014; Martinez & Ramalho, 2014), and research on this relationship has been carried out predominantly in developed economies (Chen et al., 2010; Steijvers & Niskanen, 2014).

Considering that existing studies have mixed results (Chen et al., 2010; Steijvers & Niskanen, 2014; Martinez & Ramalho, 2014; Gaaya et al., 2017), it is noted that the relationship between family ownership and tax avoidance is not yet established in the literature. On the one hand, there are studies that indicate that family businesses have less tax avoidance, mainly due to the potential reputational damage that can emerge from tax assessments (Chen et al., 2010; Wang et al., 2020). On the other hand, there are studies that suggest that family businesses are more aggressive in taxes, especially in the context of developing countries, where tax evasion activities are not seen so negatively and the mechanisms for protecting minority shareholders are not efficient (Martinez & Ramalho, 2014; Gaaya et al., 2017). The existence of mixed results suggests the existence of factors that can moderate this relationship, intensifying or attenuating it, as the case may be. In light of this, this study focuses on the moderating role of two specific corporate governance mechanisms: the existence of the audit committee and the quality of the external audit, measured by the audit fees.

The overlap of family shareholders and managers decreases agency costs, which are significantly higher in companies where ownership and management are separate (Jensen & Meckling, 1976; Fama & Jensen, 1983; Anderson et al., 2003). In this context, the benefits of tax avoidance may be greater in family businesses, due to its characteristic of concentrating wealth between managers and shareholders, who are usually closely aligned and, therefore, agree on the tax planning strategies to be adopted, facilitating tax avoidance (Chen et al., 2010). However, the costs arising from tax saving, ranging from stock price discounts to damage to family reputations, are also higher for family business owners than for non-family businesses (Gaaya et al., 2017). Accordingly, the level of avoidance is determined on the basis of this trade-off between its benefits and its costs (Wilde

& Wilson, 2018), so that the relationship between family ownership and tax avoidance remains an important empirical question (Chen et al., 2010).

Nevertheless, the study by Martinez & Ramalho (2014) indicated that, in the Brazilian context, family businesses are more aggressive in taxes than non-family businesses, which suggests that, for Brazilian family businesses, the benefits outweigh the costs associated with the tax strategies adopted to a greater extent than for non-family businesses. Thus, since this study also uses data from Brazilian publicly-held companies, it is expected that, here too, the relationship between family ownership and tax avoidance will be positive.

According to the perspective of the Agency Theory, corporate governance mechanisms would be important to reduce conflicts of interest between managers and external shareholders (Gaaya et al., 2017). One strand of the literature suggests that high-quality auditors have a lower involvement in tax avoidance, as they would suffer consequences detrimental to their reputations if tax authorities detected illicit tax positions (Hanlon & Slemrod, 2009). Also, according to Donohoe and Knechel (2014), tax aggressive companies can expose their external auditors to higher risks and litigation costs. Higher quality auditors can act to mitigate these risks, suggesting a negative relationship between the value of audit fees and tax avoidance (Marzuki & Al-Amin, 2021). Another element of corporate governance that may be associated with tax avoidance, thus influencing its relationship with family ownership, is the existence of the audit committee, which can restrict the aggressive tax activities of the firm (Zheng et al., 2019).

Nonetheless, most previous studies have dealt only with the direct relationship between corporate governance mechanisms and tax avoidance, failing to analyze whether these mechanisms act differently in family businesses than in non-family businesses. An exception to the rule, the study by Desai and Dharmapala (2009) showed that the relationship between tax avoidance and the value of the firm was affected by institutional ownership, highlighting the relevance of this corporate governance mechanism as a moderating factor. In light of the results of Desai and Dharmapala (2009), it is to be expected that corporate governance mechanisms, such as the external audit and the audit committee, may affect the relationship between family ownership and tax avoidance.

The main argument of this study is the understanding that the reduction of the tax expense of the firm is in the interest of the shareholders, respecting their risk tolerance (Chen et al., 2010; Drake et al., 2019). Although tax saving is also of interest to minority shareholders because it increases the profit and cash available for dividend payments, aggressive tax planning increases opportunities for managers of the ruling family to obtain private benefits at the expense of minority shareholders (Chen et al., 2010). However, Desai and Dharmapala (2006, 2009) have shown that corporate governance mechanisms can allow engagement in aggressive tax planning without offering managers greater opportunities to extract income. Adequate corporate governance mechanisms align the interests of managers with those of shareholders in relation to all organizational goals, including the reduction of tax expenditure.

This effect tends to be greater in family businesses, where greater alignment between managers and majority shareholders is already a factor that can

undermine the transparency of financial reporting and favor opportunistic actions by managers at the expense of external investors. Accordingly, in family businesses, it is expected that corporate governance mechanisms will offer an organizational environment that favors the adoption of bolder tax strategies, reducing investor distrust about the opportunistic practices of managers and majority shareholders belonging to the ruling family. For example, the expertise of audit committee members can enable the company to adopt efficient tax strategies with less risk of damage to the reputation of the ruling family (Beasley et al., 2021) and the transparency of financial reporting (Balakrishnan et al., 2019), which decreases agency costs associated with tax avoidance. The same statement can be made about external auditors. Family businesses that have higher quality external auditors, and therefore charge higher fees, can engage in more aggressive tax planning, since the quality of the assurance offered by these auditors reduces investor distrust about possible opportunistic behaviors of managers belonging to the ruling family.

In light of this, this study sought to answer the following research question: **what is the influence of the audit committee and audit fees on the relationship between family ownership and tax avoidance?** Therefore, the aim of this study was to analyze the moderating effect of the presence of the audit committee and audit fees on the relationship between family ownership and the tax avoidance of Brazilian listed companies.

Despite the important implications of tax planning for shareholders and regulators, the understanding of the determinants of tax avoidance is still limited (Chen et al., 2010). Scholes et al. (2016) and Desai & Dharmapala (2006) suggest further research on tax management in the presence of agency conflicts. Such calls were reinforced by the study by Wilde and Wilson (2018), who argued that studies that dealt with the ownership structure as a determinant of tax avoidance explained in different ways the nature of the agency problems that arise around the tax position of the firm, evidencing the need to promote advances in the existing theory. Accordingly, it is expected that the study of the moderation of audit fees and the audit committee in the relationship between family ownership and tax avoidance can bring more light to the topic, contributing to the expansion of knowledge in the area.

This research also contributes to the literature through the use of two variables to measure tax avoidance: BTD (Book-Tax Differences) and TRAV (Tax Rate on Added Value). This is because there are still limited studies that measure tax avoidance through the TRAV, a metric specific to the Brazilian context, since it is derived from the Statement of Added Value (SAV), an accounting statement required only in Brazil. The TRAV has the differential of capturing not only direct taxes levied on profit, but also other federal, state and municipal taxes, most of which are considered indirect taxes, such as IPI, PIS, COFINS, ICMS and ISS. The use of the TRAV justifies the conduction of the study in the Brazilian setting, where the complexity of the tax system demands that the tax strategies of the firm consider its impact on a wide and diversified set of taxes, both direct and indirect.

In addition, Sousa et al. (2021) argue that Brazil was one of the first countries to implement the audit rotation, which has been in force in the country since 1999. Mandatory rotation mitigates the problems arising from the social ties between the

auditor and the managers of the audited company, increasing the independence on the part of the auditor and the quality of the audit, with an impact on the value of audit fees (Castro et al., 2015). Thus, the already consolidated practice of audit rotation makes Brazil an interesting setting to examine the issue proposed in this study.

Another important aspect is that, compared to Martinez and Ramalho (2014), this research used a more comprehensive criterion for the classification of family and non-family businesses, which allowed the identification of a greater number of family businesses, bringing greater rigor to the research. Finally, the broad time frame of the research (10 years) was important to enable the identification of more firms with an audit committee, which allowed us to bring important perspectives and evidence to the literature.

2 LITERATURE REVIEW AND RESEARCH HYPOTHESES

2.1 Family ownership and tax avoidance

Taxes represent a significant cost and a decrease in the cash flows available to the company and shareholders, leading to incentives to reduce tax expense, often through activities and strategies that are considered aggressive. Nonetheless, tax-aggressive activities do not always lead to maximizing the value of the company, as there are potential costs associated with tax avoidance, including non-tax costs arising from actions hidden by managers (Scholes et al., 2016; Wilde & Wilson, 2018).

Studies such as Chen and Chu (2005), Crocker and Slemrod (2005) and Slemrod (2004) have introduced the analysis of corporate tax avoidance from the perspective of agency conflict (Jensen & Meckling, 1976). These studies concluded that the separation of ownership and control can lead to tax decisions that reflect the private interests of managers at the expense of the interests of shareholders (Hanlon & Heitzman, 2010). This is because managers have private information about tax reduction opportunities (both legal and potentially illegal) and can use this information to determine the level of the tax burden of the company in the way that best suits its compensation agreement. Informational asymmetry allows managers to make tax decisions that are not always optimal from the point of view of shareholders (Chen & Chu, 2005; Crocker & Slemrod, 2005).

Decisions made with the perspective of bringing tax saving may show an aggressive tax behavior. The characterization of a given business activity as legitimate tax planning or abusive tax planning is not trivial, and is always dependent on the *a posteriori* interpretation of the administrative and judicial courts (Martinez, 2017). For this reason, this study adopted the broad definition of Hanlon and Heitzman (2010), considering tax avoidance as any activity or business strategy that results in tax saving, regardless of the legality or potential illegality of the activity.

If tax savings are something desired by shareholders, they will seek to structure the incentive scheme of the managers so that they make efficient decisions from a tax point of view, that is, decisions in which the marginal benefits

of the transaction exceed their marginal costs (Chen et al., 2010; Hanlon & Heitzman, 2010). Thus, in order to determine the level of tax avoidance, managers need to think about the trade-off between the benefit of reducing tax expenditure and the costs of the potential penalty imposed by the tax authority, the costs of implementing the activity and the costs of monitoring (Chen et al., 2010).

Following this line of reasoning, Wilde and Wilson (2018) proposed a framework that compares the benefits with the costs associated with the various tax planning and strategies. The authors classify the costs of tax planning into (I) agency costs, (II) implementation costs and (III) *ex-post* costs.

Agency costs are associated with the misalignment between the interests of managers and those of shareholders. In general, organizations with a high level of tax avoidance have less transparency in their financial disclosures, which opens space for managerial opportunism, increasing monitoring costs (Balakrishnan et al., 2019). Implementation costs refer to the costs associated with the execution and maintenance of tax strategies, which are associated with intrinsic characteristics of the organization, such as ownership and capital structures. *Ex-post* costs are those associated with the consequences of the strategy, such as those related to possible fines and reputational costs.

Tax aggressive activities are characterized by complexity and obfuscation, which can mask the extraction of private benefits by managers. These two characteristics favor the opportunistic performance of managers, who can take advantage of the complexity generated by tax planning to, for example, manage profits for their own benefit. Faced with the negative perceptions of aggressive tax strategies and assuming an efficient market, shareholders will seek to protect themselves from these opportunistic activities, applying a discount in the stock price (Chen et al., 2010), which can be considered another non-tax cost associated with tax avoidance.

According to La Porta et al. (1999), the concentration of ownership in the hands of one or more ruling families reduces the effects of the traditional agency problem, that is, the one between the administration and the owners, also called type I agency conflict (Fama & Jensen, 1983; Jensen & Meckling, 1976). Nonetheless, in family businesses, principal-principal agency conflict may arise, called type II agency conflict (Singla et al., 2014), in which the owners of the ruling family can extract wealth from the company at the expense of minority shareholders (Morck & Yeung, 2003; Miller & Le BretonMiller, 2006), manipulate profits for self-interest (Fan & Wong, 2002) or obtain private benefits (Villalonga & Amit, 2006). In family businesses, there is even greater concern about reputation, which stems from the need to preserve the family name, avoiding its association with tax positions considered illegal (Chen et al., 2010).

Engaging in aggressive tax activities is accompanied by costs and benefits in the context of family businesses. Chen et al. (2010) argue that the typically larger ownership stake of family owners can provide greater gains from savings obtained through tax aggressive activities. Therefore, family businesses would have greater incentives for tax avoidance. Conversely, the costs are also potentially higher for family owners. These costs stem from the proportionately larger loss in the share price decline caused by negative perceptions of tax avoidance, coupled with the lower diversification of its portfolio, as well as potential reputational damage.

Accordingly, both the benefits and the costs of tax avoidance are greater for family businesses in such a way that it is not clear whether family businesses have greater or lower tax avoidance, and the topic should be investigated empirically (Chen et al., 2010).

Previous studies show that ownership structure can explain tax avoidance (Chen et al., 2010; Steijvers & Niskanen, 2014; Martinez & Ramalho, 2014; Gaaya et al., 2017). The empirical research by Chen et al. (2010) and Steijvers and Niskanen (2014), studying companies listed on the US and Finnish stock markets, respectively, found evidence that family businesses are less tax-aggressive than non-family businesses. Conversely, Martinez and Ramalho (2014), with a sample of Brazilian companies, and Gaaya et al. (2017), using companies listed in Tunisia, showed evidence that family businesses are more aggressive than non-family companies.

This discussion shows that the relationship between tax avoidance and family ownership is ambiguous. Considering the study by Martinez and Ramalho (2014), it is possible that, in the Brazilian context, the marginal benefits of tax avoidance in family businesses are proportionally greater than the marginal costs, resulting in a setting in which it can be expected that family businesses will show greater tax avoidance than non-family businesses. Accordingly, the following hypothesis was elaborated:

H_1: Family ownership is positively associated with tax avoidance in Brazilian companies.

2.2 The moderating role of audit fees and the audit committee

Several studies relate tax avoidance to audit fees, the ownership of the board of directors and the characteristics of the audit committee (Donohoe & Knechel, 2014; Martinez et al., 2014; Gaaya et al., 2017; Deslandes et al., 2020; Marzuki & Al-Amin, 2021). The search for a lower tax burden increases the possibility that managers extract income for their own benefit. Companies with strong corporate governance will tend to avoid the opportunism of managers, which at the same time may reduce the space for more aggressive tax strategies (Wang et al., 2020). In this context, elements of a good corporate governance structure, such as the independent audit and the audit committee, can contribute to the reduction of tax avoidance.

Conversely, in settings where the agency conflict between management and ownership is lower, such as in family businesses, higher fees can be expected to be associated with greater tax avoidance. This is because, in the context of family ownership, independent audit contributes to the reduction of conflicts of interest between insiders and outsiders, including with regard to tax positions located in the gray area between tax planning and tax evasion (Gaaya et al., 2017).

The literature considers audit fees as a proxy for effort on the part of auditors and audit risk, which impact the quality of the service provided by the auditor (Hanlon et al., 2012; Simunic, 1980). Desai and Dharmapala (2006) argue that decisions about tax planning and profit management are made simultaneously,

and the level of one activity can change the cost of the other. In family businesses with better external governance, resulting from higher audit fees, the agency costs associated with tax planning are lower, which favors tax avoidance.

The expertise of independent auditors can reduce the risk associated with tax planning (Beasley et al., 2021), favoring the adoption of more aggressive tax strategies, since investors evaluate tax avoidance positively, but negatively the risk associated with it (Drake et al., 2019). This effect is expected to be more pronounced in family businesses, which already have lower agency costs (La Porta et al., 1999), and the higher quality of external audit further reduces these costs. Given the lower costs associated with tax avoidance, family businesses that have higher quality auditors are expected to engage in more aggressive tax strategies. Accordingly, the following research hypothesis is proposed:

H_2: Audit fees accentuate the positive relationship between family ownership and tax avoidance in Brazilian companies.

Another element of corporate governance that is the object of this study is the audit committee. The audit committee is an advisory body to the board of directors, with the role of assisting it in monitoring the quality of the financial statements and internal controls. In Brazil, its deployment is not mandatory, except for financial institutions and insurance companies (Baioco & Almeida, 2017).

Deslandes et al. (2020) investigated the relationship between audit committee characteristics and tax avoidance, showing that the financial experience and tenure of audit committee members play an important role in restricting tax avoidance, as well as having a larger audit committee. In the same vein, the study by Richardson et al. (2013) showed that the independence of the audit committee would be negatively associated with tax avoidance.

Considering that the deployment of the audit committee is not mandatory in Brazil, it was decided to follow the line of research of Zheng et al. (2019), who tested whether the existence of the audit committee would be related to tax avoidance. This allows the evaluation of a larger sample than that which would be formed if one chose to evaluate the characteristics of the audit committee, since the sample would be restricted to the companies that effectively constituted such a committee in this case. The results of Zheng et al. (2019) suggested that the existence of the audit committee is negatively associated with tax avoidance, consistent with the understanding in part of the literature that strong corporate governance would limit avoidance.

Alternatively, another line of literature maintains that adequate corporate governance reduces the agency problems caused by tax avoidance, providing the opportunity for the company to engage in more aggressive tax strategies, in line with the interests of shareholders (Bauer, 2016; Gallemore & Labro, 2015).

Bauer (2016) examined the association between material weaknesses of the internal control system, disclosed in the context of the Sarbanes-Oxley Act, and tax avoidance. Its results suggest that, after the solution of the weaknesses, companies began to show higher levels of tax avoidance, consistent with greater alignment

between managers and shareholders with regard to tax saving. Gallemore and Labro (2015) analyzed the impact of the quality of internal information on tax avoidance in the North American context. Its results showed that high-quality internal information allows the company to achieve low effective tax rates without increasing the risk associated with its tax strategies.

Thus, there is empirical evidence that high-quality internal governance favors tax avoidance, in line with the argument of Desai and Dharmapala (2006), when stating that corporate governance makes it difficult for managers to establish the level of tax avoidance at levels lower than those desired by shareholders. In this sense, when acting to improve the quality of internal controls, reducing agency conflict, the audit committee would have a positive effect on tax avoidance.

Considering that family businesses have lower agency costs, due to the close relationship between management and ownership (La Porta et al., 1999), it is to be expected that, in these companies, the effect of the audit committee on tax avoidance will be more accentuated. In addition, family businesses that have an audit committee can benefit more from the expertise of their members in terms of tax reduction strategies to a greater extent than non-family businesses. Accordingly, the following research hypothesis was elaborated:

H_3: The existence of the audit committee accentuates the positive relationship between family ownership and tax avoidance in Brazilian companies.

Figure 1 shows the hypotheses elaborated and adopted in this research.

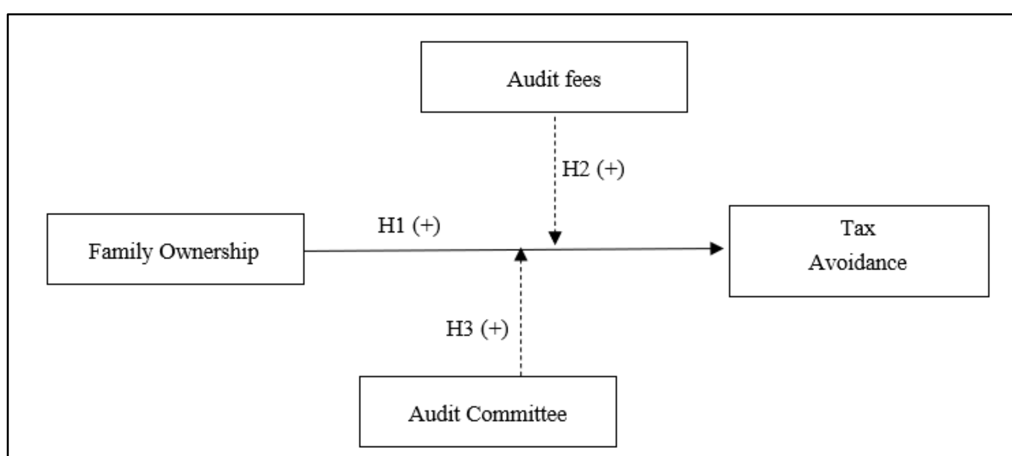

Figure 1 – Research hypotheses
Source: elaborated by the authors.

3 RESEARCH METHODS AND PROCEDURES

3.1 Population and sample

The study population consisted of all companies that were listed on B3 in January 2022. The sample was formed by excluding financial institutions, insurance

companies and companies that did not have financial statement information for the entire period analyzed, which covered the period from 2011 to 2020. The exclusion of financial institutions and insurance companies stems from the fact that these sectors are subject to different incentives for the adoption of tax-aggressive strategies. The option of working with balanced panel data avoids the possible biases that could arise from the fact that the absence of information is distributed in a non-random way.

Data collection took place through automated consultation of the Standardized Financial Statements (SFS) and the Reference Form (RF) on the website of the Brazilian Stock Exchange (B3). From the RF, information was extracted that allowed the classification of the companies as family or non-family, information related to the value of the audit fees for each company-year observation and information about the existence of the audit committee, also in each year. Based on the criteria specified, a database was formed consisting of 245 companies and 2,450 company-year observations, as shown in Table 1.

Table 1
Sample formation

Description	Sample
Population: number of companies listed on B3	471
Exclusion of institutions and insurance companies	(37)
Exclusion of companies without data in any year of the period analyzed	(189)
Number of companies in the sample	245
Number of observations in the sample	2,450

Source: elaborated based on research data.

The evaluation of a longer period is justified because it covers the period after the adoption of the International Financial Reporting Standard (IFRS), in addition to making it possible to capture more data related to the audit committee and audit fees. According to Castro et al. (2015), the obligation to disclose audit fees has existed in Brazil since 2009, which is why this study could also have covered the years 2009 and 2010. Nonetheless, these two years were excluded from this study, in order to prioritize the period after the adoption of the IFRS. The year 2010 was excluded to avoid the biases that could arise from the specific standardization related to the initial adoption of the IFRS.

3.2 Constructs

The constructs of this research are displayed in Table 2, which shows that tax avoidance was measured by two distinct variables: the Book-Tax Differences (BTD) and the effective Tax Rate on Added Value (TRAV).

The BTD consists of the difference between accounting profit and taxable income, scaled by total assets. As usually happens in research involving taxation, there is no access to the income statement of the companies, which is why the taxable income was estimated from the expense with income tax and social contribution on the reported net income. In this case, the taxable income was

estimated by dividing the current expense with taxes on income by the rate of 34%.

Table 2
Variables used in this study

Variable / Definition		Operationalization	Source	Authors
DEPENDENT VARIABLES				
BTD	Book-tax differences	$\frac{PBIT_{it} - \frac{Curr_Inc_Tax_Exp_{it}}{34\%}}{Total\ Assets_{it}}$	DFP (DRE and BP)	Hanlon and Heitzman (2010); Martinez and Ramalho (2014)
TRAV	Effective rate on added value	$\frac{Taxes\ paid_{it}}{Total\ Value\ Added_{it}}$	DFP (DVA)	Martinez and Motta (2020)
INDEPENDENT VARIABLES				
FAM	Family ownership	$\begin{cases} 1, if\ it\ is\ a\ family\ business \\ 0, otherwise \end{cases}$	FRE	Singla et al., (2014); Purkayastha et al. (2019); Laffranchini and Braun (2014), Chen et al. (2010)
CA	Audit committee	$\begin{cases} 1, if\ the\ firm\ has\ audit\ comm. \\ 0, otherwise \end{cases}$	FRE	Zheng et al. (2019)
HONOR	Audit fees	$\frac{Audit\ fees_{it}}{Total\ Assets_{it}}$	FRE	Klassen et al. (2016)
CONTROL VARIABLES				
BIG4	Big Four auditors	$\begin{cases} 1, if\ the\ auditor\ is\ BIG4 \\ 0, otherwise \end{cases}$	FRE	Gaaya et al. (2017); Martinez et al. (2014); Marzuki and Al-Amin (2021)
TAM	Size	$\ln(Total\ Assets_{it})$	DFP (BP)	Chen et al. (2010); Deslandes et al. (2020); Gaaya et al. (2017); Martinez et al. (2014); Martinez and Ramalho (2014)
ROA	Return on assets	$\frac{PBIT_{it}}{Total\ Assets_{i,t-1}}$	DFP (DRE and BP)	Chen et al. (2010); Gaaya et al. (2017; Martinez et al. (2014); Martinez and Ramalho (2014)

Caption: PBIT: Profit before income tax. Curr_Inc_Tax_Exp = current expense with Income Taxes. DFP: Standardized Financial Statements available on the B3 website; DRE: Income Statement for the Year; BP: Balance sheet; DVA: Statement of Added Value. FRE: Reference Form available on the B3 website.
Source: elaborated by the authors.

In turn, the TRAV is a measurement of tax avoidance based on the SAV, consisting of dividing the amount distributed as taxes by the total value added to be distributed (Martinez & Motta, 2020). This is a measure not available in the international literature, since the mandatory nature of the SAV is specific to the Brazilian context. In a way, the TRAV captures the tax burden to which the Brazilian company is subject.

The TRAV has some peculiarities that should be highlighted. One of them is the fact that this metric, unlike the BTD, captures not only taxes on profit, but also other federal taxes (taxes on turnover, social security contribution, among others), in addition to state and municipal taxes. Moreover, the interpretation of the BTD differs from the interpretation of the TRAV: the higher the BTD, the greater the tax avoidance, while the higher the TRAV, the lower the avoidance.

The following independent variables were used: (I) FAM, a dummy that indicates whether or not the company is considered a family business; (II) CA, a dummy that indicates whether or not the company has an audit committee in the year to which the observation refers; and (III) HONOR, which corresponds to the amount of the audit fees, as reported in the Reference Form, divided by the total assets.

Family businesses were considered to be those in which members of a specific family held a percentage equal to or greater than 20% of the common shares of the company (Singla et al., 2014; Purkayastha et al., 2019), and those in which at least two members of the same family were part of the board of directors (Anderson et al., 2003; Laffranchini & Braun, 2014).

As control variables, the study used proxies already validated in the literature, such as Big Four (BIG4), ROA and company size (TAM – natural logarithm of total assets). The variable "BIG4 dummy" indicates whether the company has been audited by one of the four largest audit firms in the world (Deloitte, E&Y, KPMG and PWC), which suggests greater external monitoring, which, in turn, would limit tax avoidance. Companies with higher ROA have greater incentives to undertake aggressive tax planning activities. In turn, companies with higher total assets (higher TAM) have more social, political and economic power, which favors more aggressive tax positions (Gaaya et al., 2017).

3.3 Data analysis

Before the operationalization of the statistical tests, all variables were winsorized at 1%, due to the existence of outliers, which could distort the results of this research. Firstly, the data were analyzed using descriptive statistics and Spearman's correlations. After that, non-parametric tests were performed to compare the group of family businesses with that of non-family businesses in relation to each of the variables of interest. The Wilcoxon test for unpaired data, also known as the Mann-Whitney test, was performed.

Finally, a multiple linear regression model was operationalized by adapting the models of Chen et al. (2010), Martinez and Ramalho (2014), Gaaya et al. (2017) and Marzuki and Al-Amin (2021), according to Equation (1), where AGR refers to BTD or TRAV, as the case may be. The coefficients were estimated using the Ordinary Least Squares (OLS) method with year and industry fixed effects (f. e.), using robust standard errors due to the heteroscedasticity of the residuals.

$$AGR = \beta_0 + \beta_1 FAM + \beta_2 CA + \beta_3 HONOR + \beta_4 FAM * CA + \beta_5 FAM * HONOR + \beta_6 BIG4 + \beta_7 TAM + \beta_8 ROA + \sum Year\ f.e. + \sum Industry\ f.e + \varepsilon \quad (1)$$

4 RESULTS

This section is intended for the introduction and analysis of the results. First, descriptive statistics, the Mann-Whitney tests and the correlation matrix are displayed. Afterwards, the results of the regressions are introduced and discussed, in order to meet the aim proposed in the research.

4.1 Descriptive statistics, Mann-Whitney tests and correlations

Table 3 displays, in Panels A and B, the descriptive statistics of the variables used in the study, after winsorization.

Table 3
Descriptive statistics

Panel A – Continuous variables (N = 2.450)							
	Mean	SD	Min.	25%	Median	75%	Max.
BTD	-0.136	0.700	-5.437	-0.043	0.004	0.035	0.230
TRAV	0.261	0.318	-1.315	0.146	0.266	0.400	1.148
HONOR	0.024	0.142	0.000	0.000	0.000	0.001	1.140
TAM	20,810	2,967	9,980	19,595	21,352	22,663	25,872
ROA	-0.834	0.772	-6.042	-0.025	0.039	0.099	0.825

Panel B – Dummy variables. Frequency distribution			
Freq.	0	1	Total
FAM	1,280 (52%)	1,170 (48%)	2,450
CA	1,763 (72%)	687 (28%)	2,450
BIG4	776 (32%)	1,674 (68%)	2,450

Caption: DP: Standard Deviation; BTD: *Book-Tax Differences*; TRAV: *Tax Rate on Added Value*. FAM: Family Business; CA: Audit Committee; HONOR: audit fees; BIG4: company audited by a BIG Four audit firm; TAM: size; ROA: return on assets.
Source: elaborated based on research data.

Table 3 shows that the variable "BTD" has a negative mean and a median very close to zero. This indicates the permanence of high negative values in the sample, even after winsorization. It also indicates that the taxable income was lower than the accounting profit only in half of the observations. It is also noteworthy that almost half of the sample is made up of observations from family businesses. In addition, the existence of the audit committee was found in only 28% of the observations.

Regarding audit fees, it is observed that, although their mean is equivalent to 2.4% of total assets, more than 75% of the observations have relatively low fees, lower than 0.1% of total assets. It should be underlined that, in Table 3, the zero values of fees for the 25th percentile and for the median do not mean that there were no fees in these observations, but only that the rounding rules determined the information of the zero value in the table. Advancing one decimal place, for

example, it is observed that the 25th percentile was 0.0001, the median was 0.0002 and the 75th percentile was 0.0006, rounded to 0.001 in the table. In light of the mean of 2.4%, it is noted that the distribution of the variable "HONOR" shows very high values after the 75th percentile.

Table 4 shows the medians of the Wilcoxon test for unpaired data (Mann-Whitney test), comparing family and non-family businesses. The results suggest that family businesses have greater tax avoidance than non-family businesses (higher BTD and lower TRAV), in line with H_1.

Table 4
Comparison between family and non-family businesses. Mann-Whitney test.

	Non-family businesses			Family businesses			p-value
	N	Mean	SD	N	Mean	SD	
BTD	1,280	-0.162	0.788	1,170	-0.108	0.587	0.020**
TRAV	1,280	0.281	0.353	1,170	0.240	0.273	0.000***
HONOR	1,280	0.028	0.151	1,170	0.021	0.131	0.000***
TAM	1,280	21,163	3.178	1,170	20,423	2,665	0.000***
ROA	1,280	-0.116	0.888	1,170	-0.048	0.620	0.002***

Caption: DP: Standard Deviation; BTD: *Book-Tax Differences*; TRAV: *Tax Rate on Added Value*; FAM: Family Business; CA: Audit Committee; HONOR: audit fees; BIG4: company audited by a BIG Four audit firm; TAM: size; ROA: return on assets. Levels of significance: * = p< 0.10; ** = p<0.05; *** = p<0.01.
Source: elaborated based on research data.

In general terms, the results displayed in Table 4 allow us to characterize the group of family businesses as composed of companies that are more aggressive in tax terms, smaller (lower TAM), with higher profitability (higher ROA) and that pay lower audit fees (lower HONOR).

Table 5 shows Spearman's correlation matrix. It is observed that the correlation between BTD and TRAV is positive and significant at 1%. This correlation allows us to infer that the amount distributed as federal, state and municipal taxes, in relation to the total amount to be distributed, increases monotonically as the difference between the accounting profit and the taxable income, in relation to the total assets, increases. Although it is considered weak, this correlation suggests a behavior, at first glance, contradictory between the variables. It should be remembered that the TRAV is an inverse measure of avoidance, that is, the higher the effective rate, the lower the tax saving. Thus, it was expected that the correlation between the two variables would be negative.

Such contradiction can be explained, in part, by the construction of the metrics itself, since the BTD considers only taxes on profit and the TRAV considers all taxes (federal, state and municipal) to which the company is subject, including social security contributions. With this in mind, the bivariate analysis seems to suggest that companies do not adopt aggressive tax practices uniformly for all taxes. For example, companies that are more aggressive in relation to income tax may be less aggressive in relation to the Tax on Circulation of Goods and Services (ICMS, as per its Portuguese acronym), and *vice versa*. This suggests that the opportunities to reduce tax expenses are evaluated by managers in an analytical

way, tax by tax, which, in the complex Brazilian tax environment, can be quite costly, either due to the managerial attention demanded or due to the organizational resources (legal team, consulting services) that must be mobilized to enable decision-making.

Table 5
Spearman's correlation matrix

	BTD	TRAV	FAM	CA	HONOR	BIG4	TAM	ROA
BTD	1							
TRAV	0.10**	1						
FAM	-0.05*	-0.10**	1					
CA	0.09**	0.08**	-0.09**	1				
HONOR	-0.22**	-0.13**	0.15**	-0.22**	1			
BIG4	0.23**	0.07**	-0.15**	0.29**	-0.26**	1		
TAM	0.22**	0.15**	-0.20**	0.47**	-0.76**	0.52**	1	
ROA	0.82**	0.23**	-0.06**	0.12**	-0.18**	0.25**	0.18**	1

Caption: BTD: *Book-Tax Differences*; TRAV: *Tax Rate on Added Value*; FAM: Family Business; CA: Audit Committee; HONOR: audit fees; BIG4: company audited by a BIG Four audit firm; TAM: size; ROA: return on assets. Levels of significance: * = p<0,05; ** = p<0,01.
Source: elaborated based on research data.

It is also observed that the correlations between the BTD and the other variables have the same signs as the correlations between the TRAV and the other variables, consistent with the positive correlation between the two variables. Considering that the TRAV measures tax avoidance inversely, the results suggest that family ownership and audit fees are negatively correlated with avoidance in income taxes, but positively correlated with the tax avoidance of all taxes in general. Similarly, it is observed that the existence of the audit committee is positively correlated with the avoidance of income taxes, but negatively correlated with the avoidance associated with the set of all taxes. At this point, it is noteworthy that the correlation matrices display only preliminary results, which cannot be taken as definitive to establish the association between the variables.

4.2 Multivariate analysis

Table 6 displays the results of the operationalized regressions for the dependent variables "BTD" and "TRAV". It should be noted that tests were carried out to check the autocorrelation of the residuals and the multicollinearity between the variables, which did not indicate problems, according to the values reported by the Durbin-Watson test and the Variance Inflation Factor (VIF), respectively. In order to estimate the coefficients, the OLS method was used with fixed effects for year and sector. Robust standard errors were used, since the White tests indicated heteroscedasticity of the residuals.

Table 6 shows that the two models have adequate global significance and that the regression with the BTD shows a higher quality of adjustment than the regression with the TRAV, considering its greater explanatory power (R^2 adjusted at 81.95%).

Table 6
Results of regression models

	BTD		TRAV	
	Coef.	Est. t	Coef.	Est. t
Constant	-0.453***	-3.15	0.092	1.15
FAM	0.041**	2.51	0.049***	2.99
CA	-0.017*	-1.83	0.032*	1.77
HONOR	-3.501***	-11.00	-0.086	-1.22
FAM*CA	-0.017	-1.21	-0.103***	-4.19
FAM*HONOR	0.605*	1.91	0.129*	1.86
BIG4	0.051**	2.24	-0.021	-1.35
TAM	0.018**	2.46	0.007**	1.99
ROA	0.255***	3.94	0.049***	5.39
Fixed effects for year and sector	Yes		Yes	
F statistics (Sig. model)	60.22***		25.10***	
R^2	82.15%		22.77%	
R^2 adjusted	81.95%		21.91%	
VIF maximum	3.37		3.37	
DW	1.59		1.23	
N	2,450		2,450	

Caption: levels of significance: * = p<0.10; ** = p<0.05; = p<0.01.
Source: elaborated based on research data.

In the regression with the BTD, Table 6 shows a positive and significant value for the coefficient "FAM", indicating that family ownership is positively associated with tax avoidance, which leads to the non-rejection of H_1. In turn, the coefficients "CA" and "HONOR" are negative and significant, indicating that the audit committee and the audit fees are negatively associated with tax avoidance for the sample as a whole, in line with the current literature that attributes the role of limiting tax avoidance to corporate governance (Marzuki & Al-Amin, 2021; Zheng et al., 2019).

However, when considering the interaction between FAM and HONOR, it is noted that, in family businesses, audit fees are associated with greater tax avoidance, since the moderation coefficient was positive and significant, which implies the non-rejection of H_2. This result is consistent with the understanding that corporate governance helps to align the interests between insiders and outsiders, favoring the interest of the latter with regard to tax saving (Desai & Dharmapala, 2006, 2009). From the perspective of the Agency Theory, this result corroborates the understanding that family businesses have lower agency costs, due to the overlap between management and ownership (Jensen & Meckling, 1976; Fama & Jensen, 1983; Anderson et al., 2003). The lower agency costs explain the fact that the higher quality external audit positively influences tax avoidance only in family businesses, since external governance may not be able to promote the adequate alignment of interests in a setting where these costs are higher *ex ante*.

Reflecting the contradictory correlation between BTD and TRAV (displayed in Table 5), the regression with the TRAV showed a positive and significant coefficient "FAM", suggesting that family ownership would be negatively associated with tax avoidance, in the opposite direction to the result obtained in the regression with BTD. Together, the results suggest that family businesses have

greater incentives to manage taxes on profit, while non-family businesses have greater incentives to manage other taxes, including taxes on turnover (indirect taxes) and social security taxes.

In the regression with the TRAV, it is also observed that the coefficient "CA" was positive and significant, corroborating the result of the regression with the BTD for this variable. In addition, the coefficient of the FAM*CA interaction was negative and significant, indicating that the interaction between the family ownership and the audit committee decreases the TRAV, which means an increase in tax avoidance, implying the non-rejection of H_3. The intensity of moderation is quite relevant, since it inverts the meaning of the relationship in a significant way. In fact, the sum of the coefficients "CA" and "FAM*CA" is statistically different from zero (0.049 - 0.103 = -0.54; F-test: 6.81; $p < 0.01$).

Thus, it is observed that the presence of the audit committee in family businesses is associated with higher levels of tax avoidance, while the audit committee is associated with lower avoidance in non-family businesses, in relation to the set of federal, state and municipal taxes. The results are consistent with the Agency Theory, which predicts that agency conflicts in family businesses are smaller, to the point of allowing the performance of the audit committee to collaborate in terms of aligning the interests of the ruling family with those of the external investor, in order to increase tax saving. In non-family businesses, the presence of the audit committee seems to have the effect of highlighting the risks associated with tax planning, increasing their estimated costs, which contributes in terms of reducing avoidance (Wilde & Wilson, 2018). Thus, an opportunity for future investigation is opened based on the findings of this research. It is possible that a specification that addresses not only the relationship between tax avoidance and the presence of the audit committee, but the relationship between avoidance and the characteristics of the audit committee, such as size, independence and experience of its members, can help to expand knowledge about these relationships.

Table 6 also indicates that the coefficient "FAM*HONOR" is positive and significant in the regression with the TRAV, suggesting that the quality of the external audit is associated with lower tax avoidance in family businesses, in relation to the set of federal, state and municipal taxes. This result contradicts that obtained for BTD. Taken together, the results displayed in Table 6 indicate that the quality of independent audit in family businesses is associated with greater tax avoidance for income taxes and lower avoidance for other corporate taxes. This finding reveals that the trade-off between the costs and benefits of tax avoidance (Wilde & Wilson, 2018) is sensitive to the type of tax considered, which opens another avenue for new studies in the area.

In general, the results of Table 6 suggest that family ownership is an element that favors the tax avoidance of Brazilian companies, in relation to taxes on profit, which is in line with the studies by Martinez and Ramalho (2014) and Gaaya et al. (2017). In relation to the other taxes (which include taxes on revenues and social security contributions), it is observed that family ownership is associated with lower tax avoidance, in line with the findings of Chen et al. (2010) and Steijvers and Niskanen (2014).

These results are explained by the fact that managers can evaluate that the benefits of more aggressive tax strategies for income taxes are greater than the costs associated with such strategies in family businesses, in a higher proportion than in non-family businesses. For the other taxes, it is observed that the benefits are greater than the costs for non-family businesses in a greater proportion than for family businesses. Thus, it is noted that the concentration of ownership in the members of the ruling family exacerbates the incentives for tax avoidance within the scope of IR and CSLL in Brazil, without increasing the risks associated with it in the same proportion (potential penalties and reputational risks), but decreases the net incentives in relation to other taxes.

The reason for the limitation of the positive effect of family ownership on the tax avoidance of taxes on profit may be associated with the economic concept that classifies taxes as direct and indirect. In the case of IR and CSLL (Brazilian direct taxes), the tax burden falls on the company and its shareholders, reducing the amount available to, for example, distribute dividends. In the case of other federal taxes (PIS, COFINS and IPI, for example) and the main state and municipal taxes (ICMS and ISS), the tax burden falls, as a rule, on the final consumer, since the company acts as a mere collection agent, being able to pass on, at least in part, the value of these taxes to the price, with the aim of improving its competitive position in the market.

In this sense, the results suggest that the benefits of saving indirect taxes can be more difficult to transfer to family owners. On the other hand, as the savings from direct taxes can be more easily distributed to shareholders who are members of the ruling family, there are different incentives for the adoption of tax-aggressive strategies in relation to direct taxes. Faced with the possibility of extracting wealth from the company at the expense of minority shareholders (Morck & Yeung, 2003; Miller & Le BretonMiller, 2006), the owners of the ruling family would have greater incentives to increase the profit that can be distributed (Fan & Wong, 2002), including by reducing the expense of direct taxes.

It should be underlined that all companies, whether family or not, have incentives to save indirect taxes, since their reduction can even give the company the competitive advantage of reducing the prices of its products and services. What the results in Table 6 show is that family ownership influences decisions regarding direct taxes in a different way than decisions regarding indirect taxes.

5 CONCLUSION AND RECOMMENDATIONS FOR FUTURE STUDIES

The main discussions of the Agency Theory led to the prediction that family businesses are more heavily involved in tax reduction strategies than non-family businesses, due to the greater alignment of interests between managers and owners of the firm. Nonetheless, empirical studies on tax planning in family businesses have not yet produced fully consistent results. In addition, the effect of corporate governance mechanisms is not yet fully clarified in the literature. Thus, this study analyzed the moderating effect of two corporate governance mechanisms, namely, the independent audit and the audit committee, on the relationship between family ownership and tax avoidance of Brazilian companies.

5.1 Theoretical and practical implications

The results of the study contribute to a better understanding of the ownership structure in corporate tax decisions, as they suggest that family ownership is positively (negatively) associated with tax avoidance in relation to income taxes (taxes in general). The different results for direct and indirect taxes represent an important contribution of this study, since it reveals that companies do not assume uniform tax positions for all taxes to which they are subject. In fact, empirical evidence seems to indicate that managers analyze the effects of their decisions with tax implications in a differentiated way, which requires greater efforts and costs.

The multivariate analysis also suggests that the audit committee and the audit fees are associated with greater tax avoidance, in line with the perspective arising from the Agency Theory, which highlights that the choices of tax strategies evaluate the trade-off between their benefits and costs, and corporate governance instruments act to align the interests of the ruling family with those of external investors with regard to the reduction of corporate taxation.

The study contributes to the body of knowledge associated with the Agency Theory by showing that ownership structure significantly alters the incentives and costs associated with tax strategies (Wilde & Wilson, 2018). Based on the principle that investors evaluate tax avoidance positively and the risk associated with it negatively (Drake et al., 2019), the study showed that, in relation to income taxes, the alignment of managerial interest with that of external investors is more easily obtained in family businesses that have the corporate governance mechanisms studied. The performance of governance mechanisms may be related to the reduction of risks associated with tax planning, since the reduction of risk decreases the *ex-post* costs of planning (Wilde & Wilson, 2018), favoring tax saving. It is suggested that future studies may investigate this assumption in more depth.

Still in terms of theoretical contributions, the study shows the importance of using several metrics of tax avoidance, corroborating the argument of Hanlon and Heitzman (2010) in the sense that there is no single metric applicable to all research contexts. The study also contributes to the suggestion that the economic definition of taxes can influence decisions of managers about the level of tax avoidance adopted, which paves the way for new studies on the topic.

The study also has important practical implications for the market and for tax policymakers. This is because the incentives for aggressive tax practices were substantially changed by the so-called Consumption Tax Reform, recently approved by the Brazilian National Congress (Constitutional Amendment nº 132/2023). In general terms, this Reform established the unification of three federal taxes on consumption (PIS, COFINS and IPI) into a single Contribution on Goods and Services (CBS), as well as the unification of ICMS and ISS into a single Tax on Goods and Services (IBS), also providing for the so-called "outside taxation", where the value of the tax is not part of its own calculation basis. After the effective implementation of the changes, new studies may check the changes in the incentives for tax avoidance in family and non-family businesses.

5.2 Limitations and suggestions for future studies

Despite the contributions, this study has limitations that can be remedied in future studies. One of them is the fact that the sample only included companies listed on the stock exchange, which makes it difficult to extrapolate the results to unlisted companies. In addition, this research was limited to Brazilian companies, which is why future research may include companies from other countries that use other accounting standards, because, despite the process of international harmonization, there are still accounting divergences between countries (Kvaal & Nobes, 2012), including the tax system, in addition to the great influence that different cultures can exert on the accounting and strategic choices of family businesses (Chapman et al., 2009).

Another limitation refers to the characterization of the company as family-owned. This study used a different criterion from that used by Martinez and Ramalho (2014), which meant that a higher percentage of observations referred to family businesses. In addition, it was considered that the attribute "family business" does not vary within the sample period, which may not be true in some cases. Thus, it is suggested that future research explore the relationship between family ownership and tax avoidance considering the changes in the ownership structure of organizations over time.

Moreover, it is recognized that other control variables could have been added to the regressions, such as indebtedness, the degree of asset immobilization and sales growth, commonly used in the literature. Despite the absence of these variables, it is observed that the coefficient of determination of the regressions was quite high, especially the one that used the BTD as a dependent variable, indicating that the eventual inclusion of omitted variables would have little impact on improving the adjustment of the models.

Finally, it is noteworthy that the current research only explored the effect of the presence of the audit committee on tax avoidance, without going into the characteristics of the committee. Future research may investigate the influence of audit committee characteristics on tax avoidance, such as size, independence and experience of its members.

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